

ARTICLE IV

SERVICING OF MORTGAGE LOANS

Section 4.01. ***Authority of Participant.*** Participant shall service the Mortgage Loans and shall be an independent contractor acting in its own behalf and for its own account. It shall have no authority, express or implied, to act in any manner or by any means for or in behalf of the Board in any capacity other than that of an independent contractor and in no respect except as herein expressly set forth or as it may from time to time be requested by the Board in writing. Participant is not authorized or empowered to waive or vary the terms of the Mortgage Loans and will not at any time waive or consent to the postponement of strict compliance on the part of any Mortgagor with any term, provision or covenant of a Mortgage Loan.

Section 4.02. ***Collection From Mortgagors.*** Unless the Participant's obligations hereunder are terminated pursuant to Article II hereof, until the principal and interest of the Mortgage Loans are paid in full, the Participant will proceed diligently to collect all payments due under the Mortgage Loans, including monthly escrow payments sufficient to pay all taxes, assessments, water and sewer charges and mortgage, casualty and hazard insurance premiums as and when the same shall become due and payable. The Participant agrees to service the Mortgage Loans in accordance with standards established by FHA, PMI, RD and VA, and in accordance with acceptable mortgage practices of prudent lending institutions and shall comply with all relevant and applicable requirements of any state or federal laws, rules and regulations respecting or governing consumer credit or truth-in-lending (including in particular the provisions of the Consumer Credit Protection Act, Public Law 90-321).

Upon payment of any Mortgage Loan in full, with all interest and other payments called for in the mortgage documents, and transmittal of all funds due and payable to the Board, the Participant shall prepare and send to the Board a satisfaction of the Mortgage in form proper for recording. The Board will execute the satisfaction and return it promptly to the Participant, together with the Mortgage Loan note with "Payment" endorsed thereon.

Section 4.03. ***Payment of Charges.*** The Participant will promptly discharge all of the obligations of the mortgagee named in the Mortgage Loans, as well as every obligation arising hereunder and under any applicable contract of insurance with the FHA Commissioner, PMI, the RD guaranty or the Administrator of Veterans Affairs. The Participant shall retain in its possession a record of payment of all such obligations and shall, when requested to do so, forward to the Board for examination satisfactory evidence of such payments. The Board shall have the right to pay any taxes, assessments, water and sewer charges and mortgage, casualty and hazard insurance premiums when due, and the amount thereof shall be added to the debt secured by the lien of the Mortgage.

All Mortgage Loans require the Mortgagor to make escrow payments. The Participant shall at least annually review the estimated taxes, assessments, water and sewer charges and mortgage, casualty and hazard insurance premiums that will become due and payable thereon, determine the adequacy of the monthly escrow payments to pay such charges when they become due and payable, and make such adjustments in the amount of future escrow payments as are necessary and appropriate to pay such charges when they become due and payable. The

Participant shall promptly notify the Board of any anticipated deficiency in the funds of the Mortgagor (after taking into account the effect of any such adjustments) which will be available for the payment of such charges when they become due and payable. Except where the Participant is not required to pay interest on the escrow accounts because the payment of such interest would violate any federal law or regulation, the Participant shall bear the sole responsibility for paying interest on such escrow accounts.

Section 4.04. *Compensation.*

(a) As compensation for servicing the Mortgage Loans, the Participant shall receive a Servicing Fee (as specified in the related Notice of Acceptance); provided, however, that Participant shall deduct the Servicing Fee only when the entire amount of the Mortgagor's monthly payment due with respect to any Mortgage Loan has in fact been paid by the respective Mortgagor. Such fee shall be payable monthly and shall be based upon the outstanding principal balance of the Mortgage Loans at the beginning of each month. For example, if the Servicing Fee factor is .0536, such factor is applied to the interest portion of the level payment of principal and interest. Assuming a loan amount of \$50,000, the initial interest portion of a level payment of \$332.66 is \$291.67. The retained Servicing Fee would then be \$15.63 ($\$291.67 \times .0536 = \15.63). In addition, the Participant shall be entitled to retain late charges collected from the Mortgagors (provided that the Participant shall impose, waive, enforce and otherwise act with regard to late charges on the Mortgage Loans serviced hereunder in the same manner and to the same extent as the Participant acts on such charges on mortgages held for its own account) and shall be entitled to retain as full compensation for the management of any of the mortgaged premises during foreclosure proceedings, as described in Section 4.12 hereof, from rentals collected by said Participant, a fee equal to five percent (5%) of the amount of such rentals collected. The Participant will also be entitled to reimbursement from the Board to the extent provided in Section 4.12 hereof.

(b) Notwithstanding any other provision contained in this Guide to the contrary, the Participant shall not charge or collect any fees or compensation of any kind from the Board or any other party for its services pursuant to this Guide, except as expressly provided in this Section 4.04.

Section 4.05. *Remittances and Handling of Funds.* All funds which are applicable to the payment of principal and interest on the Mortgage Loans and which are received by the Participant by the close of business on the cut-off dates specified by the Board shall be remitted to a designated depository of the Board by wire transfer. The Participant will deduct its Servicing Fee on the Mortgage Loan from each payment collected thereon. Any amount not remitted within five days of the applicable due date shall bear interest payable to the Board at the rate of fifteen percent (15%) per annum from the date on which such remittance should have been wire transferred until the date such remittance is actually received by the Trustee. The Participant shall provide such reports and information, based on an acceptable reporting system of accounting, as the Board shall prescribe from time to time. A separate Monthly Mortgage Remittance Statement of Mortgage Loans and related reports are required to report mortgage payments under the Program. The Series Code for the Program shall be specified in the Notice of Acceptance. Interest on monthly Mortgage Payments is calculated using a factor specified in

the Notice of Acceptance. The Monthly Mortgage Remittance Statement is due in the Board's office no later than the twenty-fifth day of each month to cover all loan activity included in the reporting period from the twenty-first day of the previous month through the twentieth day of the current month. Forms are available upon request.

Mortgage Loans are not typically closed on the first day of the month and result in the Mortgagors paying or being given credit for the odd days of interest. The interest credit or interest payment by the Mortgagor is to be calculated on the actual number of days using the 360-day factor to the first of the month.

The interest calculation on FHA, PMI, RD and VA loan payoffs is to be calculated on a 365-day factor for the actual number of days from the interest paid to date through the Participant's receipt of collected funds. Prepayment penalties are not to be charged. The funds from the payoff are to be wired to the proper trustee promptly, and the "Mortgage Paid-In-Full Form" mailed to the Board. The payoff form and funds are required within three (3) working days after the payoff occurs or the Participant will be charged the daily interest. The payoff figure is then reflected on the Monthly Mortgage Remittance Statement.

Until such funds are paid over to the Board, the Participant shall segregate and hold such funds for the Board in a special trust or custodial account or accounts. The Participant shall also segregate and hold for the Board, in the same or in a similar special trust or custodial deposit account or accounts, all other funds received from the Mortgagors (such as tax and insurance escrow) until applied in accordance with the terms of the Mortgage Loans and, where applicable, the regulations of or contract of insurance with the FHA Commissioner or PMI or the regulations or guaranty of the RD or the Administrator of Veterans Affairs. Such trust account shall be:

- (a) maintained in a financial institution approved by the Board;
- (b) specifically designated so as to disclose the custodial nature thereof;
- (c) insured by the Federal Deposit Insurance Corporation ("FDIC") or the National Credit Union Administration ("NCUA") to the maximum extent for each party, naming the Board and each individual Mortgagor whose moneys are included therein;
- (d) in compliance with all applicable rules of the FDIC or the NCUA, as the case may be, and, if applicable, the FHA, PMI, RD or VA. The Participant's records shall clearly show the respective interests of the Board and of each individual Mortgagor in all accounts maintained as aforesaid. Any Participant who has more than \$100,000 on deposit at any one time from mortgage payments shall immediately remit all sums in excess of \$100,000 as specified in the Notice of Acceptance. If the Participant maintains a PI custodial account for other Board servicers, the aggregate (the Participant's account plus the customer's account) balances on deposit may not exceed \$100,000. If, due to the large number of Mortgage Loans serviced or late in the day receipts or other reasons acceptable to the Board, it is not practical for the Participant to immediately remit any amounts over \$100,000 as aforesaid, the Participant may delay the remittance to the next succeeding business day, but only if and to the extent the Participant pledges to the Board (as security for such remittance) cash and/or obligations of the United States of America,

FNMA, FHLMC or GNMA with a market value of 110% of the amount secured and such cash and/or obligations are separately noted as so pledged on the books and records of the Participant and to the extent possible segregated from the other assets of the Participant.

Such funds may be held and managed within the Participant's own banking facilities provided (i) such funds are held and managed in accordance with regulations established by the applicable supervising government agency with respect to such funds, (ii) proper books and records are maintained reflecting the interest of the Board and each individual Mortgagor therein, and (iii) such funds are fully insured as stated above by FDIC or NCUA. In all events, the Participant shall furnish the Board with a copy of the statement of each such account once each year or more often as may be required by the Board or any supervisory authority.

Upon any subsequent assignment of any of the Mortgage Loans, the Board shall mail written notice thereof to the Participant, giving the name and address of the assignee. Until the Participant receives such written notice, the Board shall be presumed to continue to be the owner of the Mortgage Loans, and the Participant will be fully protected in continuing to make payments of principal and interest to the Board.

Except as otherwise directed by the Board, no payment of principal and interest on any Mortgage Loan shall be remitted to the Board by the Participant unless (a) all maintenance charges with respect to such Mortgage Loan have been received by it from the Mortgagors, and (b) such maintenance charges as shall have become payable by the mortgagee under the terms of the Mortgage Loan have been paid and discharged in full by the Participant; provided, however, the Participant shall apply any payments received from the Mortgagors so as to avoid defaults adversely affecting the rights of the Board. The term "maintenance charges" as herein used means taxes, insurance premiums and all payments, other than principal and interest, for whatever purpose required by the terms of the Mortgage Loans or by local or State law or regulations of the FHA, PMI, RD or VA, to be made by the Mortgagors to the lender or to others.

Section 4.06. **Insurance.** As to the Mortgage Loans serviced pursuant to this Guide, the Participant shall, within ten (10) days of the date of assignment to the Board, by first class mail, postage prepaid, notify:

- (a) the insurance company issuing each policy insuring premises subject to the lien of any such Mortgage Loan against loss or damage by fire or other hazard,
- (b) the FHA, PMI, RD or VA providing coverage or benefits, and
- (c) the insurance company issuing life, health, accident or other similar insurance on the Mortgagor which pertains to or originated as the result of any such Mortgage Loan,

that such Mortgage Loan was assigned to the Board, the date of such assignment and that the Board should be named the loss payee under a standard mortgagee clause with respect to such insurance.

The Participant shall assure that at all times during the term of the respective Mortgage Loan that all of the buildings and improvements upon the mortgaged premises are kept insured against loss or damage by fire, with extended coverage, and from such other insurable hazards and risks as is customary in the locality where the mortgaged premises are located and such other hazards or risks as the Board may in its discretion require for its protection. Such policies shall be written by a company licensed to do business in the State and shall be in amounts specifically designated by the Board (set forth in Exhibit P attached hereto) or, if not so designated, in amounts at least equal to the lesser of the full insurable value of the premises or the unpaid principal balance of the Mortgage Loan; provided, however that such insurance shall pay in full the amount of any partial or total loss to the full amount of such insurance and shall otherwise be sufficient to prevent the Mortgagor from being a co-insurer. **The deductible on such policies shall not exceed \$1,000. (The deductible on townhouse and condominium policies must not exceed \$1,000 per unit.)** The Participant shall promptly notify the Board of any loss or damage by fire, or from any other cause, to the mortgaged premises in excess of one thousand dollars (\$1,000), and will not make any agreement with respect to the rehabilitation of the property as the result of such, and shall use its best efforts to assist in the collection of the proceeds of such policies with respect to all losses which may occur. The Participant shall supervise all repairs if so instructed by the Board and in general shall do all things reasonably necessary to protect the interests of the Board as mortgagee. The Participant is hereby authorized to do all things necessary to settle and adjust claims, including endorse drafts, for damages up to one thousand dollars (\$1,000).

The Participant shall comply with all rules and regulations of the FDIC or the NCUA, as the case may be. In addition, the Participant shall take all steps necessary to the end that such insurance on funds which relate to Mortgage Loans serviced, and are held by the Participant in escrow or otherwise, shall inure to the benefit of the Board.

The Participant shall keep in force throughout the term of this Guide a policy or policies of insurance covering errors and omissions in the handling of the insurance coverage, which policy or policies shall be written by a company licensed to do business in the State and in such form and amount as shall be satisfactory to the Board provided that in any case the amount shall be at least \$300,000 and in no event less than the amount required by FHA, PMI, VA or RD.

Section 4.07. **Assumptions.** Mortgage Loans funded with the proceeds of the Board's bonds issued subsequent to 1980 must contain the Board's Uniform Rider to Trust Indenture stating that all principal and interest payments due under the loan may be accelerated if the Mortgagor rents, sells or otherwise transfers an ownership interest in the property or otherwise ceases to occupy the property as the principal residence. Mortgage Loans may be assumed only upon *prior* Board approval (see, in particular, Section 2.05(vii) for federal tax law requirements) and compliance with FHA/PMI/RD/VA assumption requirements. The original mortgagor may be released from liability if approval is granted from FHA, PMI, RD or VA. Loan assumption documents will be provided to the Participant upon request. The Participant shall notify the Board promptly after the Participant becomes aware of any of such circumstances which may constitute an event of default and will take such further action to investigate the status of the Mortgagor's occupancy as the Board may reasonably request. If it is determined that an event of default has occurred, the Participant shall proceed in accordance with Section 4.08.

Section 4.08. ***Defaults of Mortgagors.*** The Participant shall notify the Board of any Mortgage Loan which is delinquent and at the same time recommend to the Board to take appropriate action to cure such delinquency. The Participant shall implement or cooperate with any early delinquency counseling program or practice of the Board.

In the event that principal, interest or any maintenance charges with respect to any Mortgage Loan are not paid within sixty (60) days after they become due and payable, the Participant on such sixty-first (61st) day, and monthly thereafter until the default is cured, shall send to the Board a statement listing the account numbers, due dates and amount of default for each such Mortgage Loan, together with a report of the servicing activities in respect to each such Mortgage Loan and a recommendation as to the future action to be taken in respect thereto. In the event that the Mortgagor fails to perform any other covenant or obligation under the Mortgage Loan and such failure continues for a period of twenty (20) days from the time such failure comes to the attention of the Participant, the Participant on such twentieth (20th) day, and monthly thereafter until the default is cured, shall send to the Board a report listing the account numbers and stating, in each, the nature and extent of the default and the efforts taken by the Participant to cause such default to be cured, together with a recommendation as to the future action to be taken in respect thereto. In addition to statements, reports and recommendations as to defaults hereinabove required, the Participant shall send to the Board such additional statements, reports and recommendations, of the character hereinabove provided, as the Board may from time to time request.

Section 4.09. ***Inspection.*** The Participant shall make an exterior inspection of the premises covered by the Mortgage Loans at least once every five (5) years and shall make exterior and interior inspections on loans in default for more than sixty (60) days or if deemed to be warranted by the Participant. When a Mortgage Loan becomes 90 days delinquent, exterior and interior inspection shall be conducted monthly until such time as the delinquency is cured.

Section 4.10. ***Notification by Participant.*** Participant shall, in addition to the other notifications called for herein, notify the Board in writing within ten (10) days of any of the following which comes to the attention of the Participant:

- (a) abandonment of the mortgaged premises;
- (b) any lack of repair or any other deterioration or waste suffered, threatened or committed in respect of any mortgaged premises; and
- (c) any other matter which would adversely affect or result in diminution of the value of the Board's security.

Section 4.11. ***Compliance With National Housing Act, Title V of the Housing Act of 1949 or Servicemen's Readjustment Act.*** Participant represents that it is an FHA-approved, RD-approved and/or VA-approved mortgagee as defined in the National Housing Act, as amended, Title V of the Housing Act of 1949 or the Servicemen's Readjustment Act, and rules and regulations thereunder, or a PMI-approved lender. It is agreed that if at any time the Participant ceases to be an approved Mortgagee, whether by reason of cancellation, revocation, suspension or otherwise, or in the event that any governmental agency, body, or department

which shall have guaranteed any of the Mortgage Loans or which has jurisdiction over the operations of the Participant shall cancel, revoke or suspend the authority of the Participant to carry on the business of the Participant as a lender or servicer, or shall otherwise forbid or impair the right or privilege of the Participant to carry on its business operations, notwithstanding anything herein to the contrary, the Board reserves the right to terminate this Guide upon five (5) days written notice to the Participant. Participant agrees that if any of the events specified in this paragraph shall happen, it will give written notice thereof to the Board within two (2) days after the happening of such event.

The Participant shall comply, where applicable, with the National Housing Act, Title V of the Housing Act of 1949 and Servicemen's Readjustment Act, as from time to time amended and supplemented, and with the rules and regulations issued thereunder at the time in force (insofar as the same apply to the obligations of the mortgagee named in any Mortgage Loan), including the giving of all notices and submitting of all claims required to be given or submitted to the FHA, PMI, RD or VA, to the end that the full benefit of the contract of insurance or guaranty will inure to the Board.

If the FHA or PMI insurance, RD guaranty or VA guaranty concerning any Mortgage Loan lapses or is voided or is reduced, released or adversely affected in any way as a result of the Participant's error, act or omission, the Participant shall, at the option of the Board, purchase such Mortgage Loan from the Board for an amount equal to its then unpaid principal balance, together with accrued but unpaid interest thereon.

Section 4.12. **Foreclosure.** In case of default, the Participant, when so requested by the Board, shall promptly institute foreclosure proceedings or shall proceed to acquire the property by such other means as the Board shall direct, including, where applicable, in accordance with the provisions of the National Housing Act, Title V of the Housing Act of 1949 or the Servicemen's Readjustment Act and the rules and regulations issued or to be issued thereunder. The Participant through an attorney acceptable to the Board shall conduct all such proceedings as directed by the Board and take title to the property in the name designated by the Board. If the property is conveyed to the FHA, PMI or VA or if a claim is made against the RD Guarantee, the Participant shall promptly attend to the settlement with the FHA, PMI, RD or VA as part of its services under this Guide.

In the alternative, when so requested by the Board, the Participant shall promptly take all appropriate steps to obtain the benefits of any contract of insurance or guaranty by assignment of the defaulted obligation, without foreclosure, to the FHA, PMI, RD or VA, pursuant to the respective provisions of the National Housing Act, Title V of the Housing Act of 1949 or the Servicemen's Readjustment Act, as amended, and the rules and regulations issued thereunder, or the PMI insurance and the Participant, when so requested by the Board, shall attend to the settlement with the FHA, PMI, RD or VA as part of its services under this Guide.

The Participant shall assure that all such proceedings are conducted to the best interest of the Board and until the completion thereof shall protect the mortgaged premises from waste.

The Board agrees to reimburse the Participant for necessary and reasonable costs and expenses of any such proceedings, including reasonable attorney's fees.

Section 4.13. ***Property Management.*** In the event that foreclosure proceedings are instituted, the Participant from the date of the commencement thereof until the termination thereof, shall manage and protect the mortgaged premises under foreclosure according to guidelines promulgated by FHA, PMI, RD, VA or the Board as the same may be amended from time to time. Such services shall include, but not be limited to, the rental of the premises if permissible under the applicable laws and requested by the Board, the collection of rents, attending to insurance on the premises in the manner provided in Section 4.06 hereof, management and supervision of repairs and maintenance of the premises, and the rendering to the Board of such reports as the Board may require. The Participant will remit to the Board or deposit for its account, as the Board shall instruct, all rentals or other moneys in respect of said premises which may come into its hands as provided in Section 4.05 hereof. If the Board shall from time to time direct the Participant with respect to the manner or procedure of the performance of any of the duties and services referred to in this Guide, the Participant will perform such duties and services in accordance with such direction, anything herein to the contrary notwithstanding. The Board shall indemnify the Participant for necessary costs and expenses, including reasonable attorney's fees as approved by the Board.

Section 4.14. ***Error and Omissions and Fidelity Insurance.*** Participant will maintain an errors and omissions policy of insurance and fidelity bond with a reputable insurance company licensed to do business in Montana and who is a participant in the Montana Guarantee Fund in an amount approved by the FHA or PMI (whichever is higher), but not to be less than \$300,000, and furnish a certificate of insurance evidencing such coverage to the Board.

Section 4.15. ***Mortgage Servicing.*** Mortgage Loans shall be serviced by the Participant pursuant to and in accordance with the terms and conditions of this Guide and any other correspondence relating hereto.

Section 4.16. ***Records.*** The Participant shall keep satisfactory books and records pertaining to each Mortgage Loan which reflect the interest of the Board therein and shall make its reports in such manner as the Board may prescribe. The Participant shall permit the Board or its authorized representative, at any time during the Participant's business hours, to examine all books and records relating to the Mortgage Loan. The Participant shall supply the Board with photostatic or other copies of such of these records as it may desire. Such records may not be destroyed or otherwise disposed of without the prior written consent of the Board.